

CITY OF GARDEN GROVE

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
APRIL 1, 2015 THROUGH MARCH 31, 2016**

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City of Garden Grove

Officials

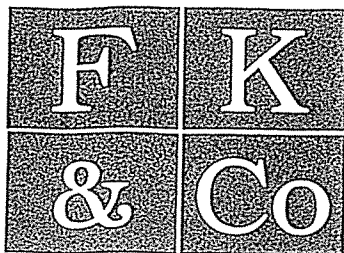
(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Murphy	Mayor	Jan 2018
Roger White	Council Member	Jan 2018
Zack Fraker	Council Member	Jan 2018
Willie Neinas	Council Member	Jan 2018
Rick Sorrells	Council Member	Jan 2016
Shirley Flowers	Council Member	Jan 2016
John Rouze	City Clerk/Treasurer	Indefinite
Patrick Greenwood	Attorney	Indefinite

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City of Garden Grove



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Garden Grove for the period April 1, 2015 through March 31, 2016. The City of Garden Grove's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.

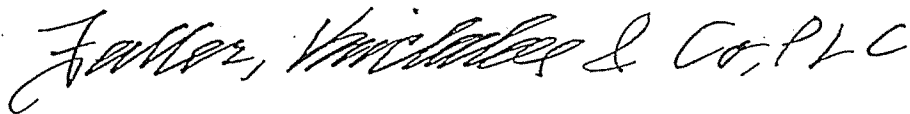
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Garden Grove, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Garden Grove and other parties to whom the City of Garden Grove may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Garden Grove during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Faller, Kincheloe & Co, PLC".

Faller, Kincheloe & Co, PLC

Des Moines, Iowa
July 29, 2016

Detailed Recommendations

CITY OF GARDEN GROVE

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody or investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Utilities – billing, collecting, depositing and posting.
7. Financial reporting – preparing and reconciling.
8. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (C) Deposits and Investments – The City has not adopted an official investment policy as required by Chapter 12B.10B of the Code of Iowa. A resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa; however, in one instance the maximum amount which may be kept on deposit was not documented in the resolution.

CITY OF GARDEN GROVE

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (D) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (E) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, general government and the business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

There was no indication in the Council minutes that the fiscal year 2016 budget was passed by resolution as required by Chapter 384.16 of the Code of Iowa.

The notice of public hearing on the budget was not published in the newspaper within 10 and 20 days before the hearing, as required by Chapter 384.16 of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the City’s budget should be passed by resolution and the notice of public hearing on the budget should be published in the newspaper, as required by Chapter 384.16 of the Code of Iowa.

- (F) Payroll – Employee wage rates were not documented in the City Council minutes. The City filed incorrect Form 941’s, W2’s and W3’s with the federal government. Specifically, the City did not reduce the federal and state taxable wage amounts by the amount of the employee’s share of retirement deducted from the employee’s check.

CITY OF GARDEN GROVE

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

The compensation amounts paid to the Mayor and City Council did not agree to the amounts noted in the ordinances. Chapter 372.13(8) of the Code of Iowa states that the City shall establish by ordinance the compensation of the Mayor and City Council members.

Recommendation – Wage rates of employees should be documented in the City Council minutes. In addition, compensation amounts paid to the Mayor and City Council should be documented in an ordinance, as required by the Code of Iowa. In the future, the City should ensure accurate 941's, W2's and W3's are filed with the federal government, and that the federal and state taxable wage amounts are accurately reported.

- (G) Monthly Clerk's Report – The monthly City Clerk's Report provided to the City Council for review does not include a comparison of total disbursements for all funds to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements, the City Clerk's monthly financial reports to the City Council should include a comparison of total disbursements for all funds to the certified budget by function.

- (H) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires the publication of all City Council proceedings, including total disbursements from each fund, a list of all claims allowed and a summary of all receipts be published within fifteen days of the meeting. We noted that these requirements were not met by the City for all of the meetings tested.

Recommendation – The City should comply with the Code of Iowa and publish within fifteen days of each meeting all City Council proceedings, including total disbursements from each fund, a list of all claims allowed and a summary of all receipts.

- (I) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree to the City's records.

Recommendation – The City should ensure future Annual Financial Reports agree to the City's records.

CITY OF GARDEN GROVE

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (J) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (K) Local Option Sales Tax (LOST) – The City imposed a local option sales tax in the City with receipts to be allocated as follows: 33.5% for community protection and 66.5% for home and community environment. Documentation has not been maintained to demonstrate the LOST receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the LOST referendum.

- (L) Separately Maintained Records – The Garden Grove Library and the Cemetery maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (M) Bank to Book Reconciliations – The reconciling items as noted on the bank reconciliations are not accurate.

Recommendation – The City should implement procedures to ensure all reconciling items as noted on the bank reconciliations are accurate.

- (N) Financial Condition – The Special Revenue, Cemetery Fund had a deficit balance at June 30, 2015 of \$1,622.

Recommendation – The City should investigate alternatives to eliminate the deficit to return the fund to sound financial condition.

CITY OF GARDEN GROVE

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (O) Sewer Revenue Notes – The City was unable to provide documentation regarding the requirements of the Sewer Revenue Notes debt agreement with the United States Department of Agriculture. As a result, the City was unable to provide to us the continuing compliance provisions in relation to these notes.

Recommendation – The City should retain documentation relating to any notes on all future debt issuances.

- (P) Water Revenue Notes – In accordance with the Water Revenue Notes, the City is required to establish a Water Reserve Account and a Water Improvement Account. The City was unable to determine the balances that should be in these accounts at July 1, 2015; however, according to the debt agreement it appears the City should have more than \$20,400 in these accounts as of July 1, 2015. The actual cash balance in the Enterprise, Water Fund was deficient at July 1, 2015, with a total of \$18,023.

Recommendation – The City should implement procedures to ensure the balances in the Enterprise, Water Fund meet the requirements of the debt agreement.

- (Q) Separately Maintained Records – The Garden Grove Fire Department and the Garden Grove EMS Department maintain bank accounts for activity separate from the City Clerk's accounting records. The transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget, monthly financial reports or Annual Financial Reports.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.